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May the Lord bless you abundantly and all your future endeavours. .

'I can do all things through Christ who strengthens me' Philippians 4:13.

DEDICATION

This dissertation is dedicated to my parents and all the loved ones, for their love, support, prayers and for believing in me.

ABSTRACT

The aim of the research is to analyse the effects of adopting IFRS for SMEs on quality of accounting reports of SMEs in Harare CBD. The targeted population size used in this research was 18 and the sample size was constituted by 11 respondents. The information obtained from the data collected was analysed using the qualitative approach. From the research the research findings also show that adopting IFRS significantly affects the quality of accounting reports of SMEs. In measuring the quality of accounting data presented in the financial statements, SMEs used different method. The use of the conceptual framework and accounting conservatism methods were the most applied by SMEs. The findings also indicated that the legal framework of the country was a major determinant of accounting reporting for SMEs. The SMEs who participated in the study, had mixed feelings on the impact of IFRS on their accounting reports. Benefits and challenges of adopting IFRS were also cited by these SMEs. The researcher discovered that SMEs need assistance from all stakeholders in order to improve awareness of adopting the IFRS. The recommendation was that the government should assist in minimizing the cost of adopting IFRS and business stakeholders to help with the relevant resources required to implement IFRS for SMEs.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER I: INTRODUCTION TO STUDY

1.0 INTRODUCTION

The International Accounting Standards Board (IASB), in its destinations assumes that the adoption of IFRS incorporates straightforwardness financial reporting quality together with decreased expense of capital. A related Study in Germany by Houque et al. (2010) concluded that the mandatory adoption of IFRS lead to poor quality of financial reporting Lopes et al (2010) expressed their concern on the mandatory adoption of IFRS by European Union firms by citing that IFRS had not enhanced quality of financial reporting. Chen et al. (2010) additionally contended that different variables influenced the quality if financial reporting and the adoption of IFRS did not yield any quality accounting data

In Australia, Chua, Cheong and Gould (2012) undertook a research by analysing the relationship amongst IFRS and adoption and accounting quality with regards to Australian capital business sector and the analysts contended that adoption of IFRS has brought about better accounting quality. Uyar (2013), Yurt and Ergun (2015) and Zeghal et al (2012) upheld that the adoption of IFRS has achieved positive changes on accounting quality and change in value relevance. With regards to Zimbabwe, there is a deficiency of studies which takes a gander at the impacts of adopting IFRS on nature of accounting reports. In this way this research looks to furnish with exact proof of the last mentioned.

1.1 BACKGROUND OF THE STUDY

In Zimbabwe the stunning 95% unemployment rate has brought about various Zimbabweans to begin their own business and get to be business visionaries. Data uncovered in the Chronicle, commended SMEs and cooperatives as the new economy in Zimbabwe. Minister of Finance and Economic Development when he introduced the $4 billion spending a year ago in 2015 recognized and noticed that SMEs part utilized around 60% of the nation's work constrain and contributed around 60% of Zimbabwe's Gross Domestic Product (GDP). However regardless of the extraordinary actualities being contributed by these SMEs, Gwarisa.(2012), clarifies that the nation of Zimbabwe is characterised by SMEs who are positively influencing the economy. However there are major concerns on issues pertaining to their financial reporting practises.

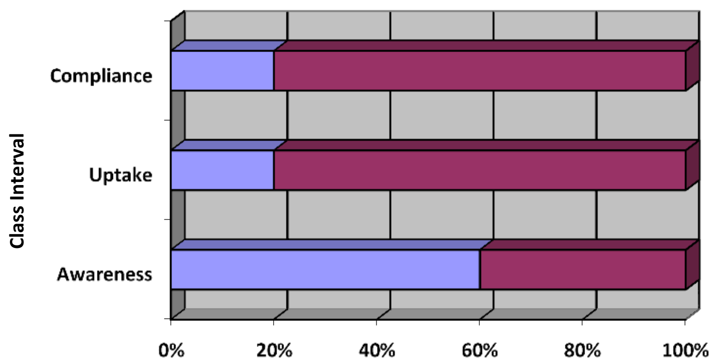
Zimbabwe SMEs are facing challenges related to cash shortages despite contributing significantly to the economy. The reality on SMEs is that despite starting small and willing to grow and expand, financial constraints limit their goals and objectives. Previous research studies done on SMEs cited the critical element of cash shortages among SMEs as the major determinant to the downfall of SMEs in Zimbabwe Maseko and Manyani (2011). It remains difficult for SMEs located in the central business district of Harare to break the voluminous and complex banking requirements when accessing finance. As a result, SMEs are forced to rely on their personal savings in order to fund their operations. Aldaba (2012) conducted a study in the Philippians and noted that SMEs were having challenges in accessing finance due to lack of adequate accounting reports.

In a speech presented by doctor Dhliwayo at the second SME banking and microfinance summit in 2014, it was prompted that SMEs who have being accessing loans from banking institutions had their numbers increased by 3409 by end of June 2013. However despite the increase banks continue to be reluctant to lend to these SMEs due to the improper accounting practises they conduct resulting in poor accounting reports Therefore it was advised that SMEs should maintain better financial records and produce financial statements of good quality.

From a financial reporting perspective, SMEs do need proper accounting infrastructure in order to produce quality, complete and timely accounting reports. Aldaba (2012). Proper accounting system for SMEs will enhance the need of providing with relevant accounting information to end users of financial statements. Users such as lenders and potential investors will be able to evaluate the financial health of SMEs before assisting them. Aldaba (2012) went on to highlight that providing with adequate accounting reports helps to improve the relationship with financial institutions. Hence SMEs will need to produce accurate and timely accounting reports to build a good reputation with financial institutions. Taking into consideration the manner in which SMEs in the Harare CBD are structured makes them not to consider matters involving the finance and accounting infrastructure because they perceive that the latter is associated with high costs.

The accounting needs of SMEs and the nature in which they financially reporting is unique to that of large co-operations As a result the International Accounting Standard Board (IASB) introduced IFRS for SMEs in the year 2009. Zimbabwe has recognized the need for SMEs to embrace the IFRS for SMEs and provide with quality accounting reports to stakeholders such as investors and lenders. As cited by IFRS Foundation (2016), Zimbabwe adopted the IFRS for SMEs in 2011. The move was made to reduce the cost involved in financial reporting and to simplify the many complex financial reporting practices which made it difficult for SMEs to provide with accurate, timely accounting information

Figure 1.1 Level of IFRS uptake in Zimbabwe by SMEs



Source: Mazhindu and Mafuba (2013)

From the source above, it shows that at least there is an awareness of 60% of the IFRS while 20% of SMEs are complying with the standard. However the uptake is relatively low at20% indicating that a number of SMEs are yet to adopt the IFRS. Regardless the adoption of IFRS for SMEs five years ago, results do reflects that in Harare CBD, SMEs are yet to understand and derive the benefits of using the IFRS. The ultimate objective of IFRS for SMEs is to simplify the reporting structure for small entities. (Institute of Chartered Accountancy Zimbabwe (ICAZ), 2010). Regardless of this objective, lending institutions are still not satisfied with the quality of accounting reports being generated by SMEs. This pose a big question to whether the adopted IFRS for SMEs is making any strides in improving financial reporting of SMEs. Previous studies done in Zimbabwe have looked at the accounting practices of SMEs and there is a dearth of studies which look into the effects posed by IFRS adoption. Therefore this study seeks to bridge this gap and try to find the effects of adopting IFRS by SMEs on the quality of accounting reports.

1.2 STATEMENT OF THE PROBLEM

It is the view of the IASB that adoption of IFRS will enhance quality of accounting reports. Business performance is also perceived to improve after adopting IFRS (European Commission, 2012). In a view to justify the emergence of IFRS for SMEs, the study seeks to ascertain whether in did IFRS for SMEs enhances quality of accounting reports. This study aims to exploit the unique features offered by Harare CBD SMEs' adoption of IFRS and contribute to the literature examining the effects of adopting IFRS.

1.3 MAIN RESEARCH QUESTION

What is the effect of adopting IFRS for SMEs on the quality of accounting reports?

1.4 RESEARCH OBJECTIVES

The study seeks to use the following objectives:

- Examine the determinants of financial reporting quality.
- Examine the measurement criteria for the quality of accounting information presented in the financial statements.
- Evaluate the extent to which IFRS for SMEs enhances quality of financial reporting.
- To ascertain the benefits and challenges of adopting IFRS for SMEs

1.5 SUB RESEARCH QUESTIONES

Based on the above stated purpose of the research, the following questions shall guide this study:

- What are the determinants of financial reporting quality?
- What is the measurement criteria for the quality of accounting information presented in the financial statements?
- To what extent does IFRS for SMEs enhances quality of financial reporting?
- What are the benefits and challenges of adopting IFRS for SMEs?

1.6 Significance of the study

With the significant contribution being made by SMEs to the Zimbabwe economy, this study on the effects poised by adopting IFRS will be important in addressing challenges facing SMEs in their accounting practices. Precisely looking at the financial reporting practices of SMEs in Zimbabwe, there is a dearth of studies in this area. Therefore it will be of paramount importance to add with empirical evidence to the literature which already exists on the effect of adopting IFRS. On the completion of this study, both the theoretical and practical aspect of adopting IFRS for SMEs will be unveiled and all interested parties will benefit from the evidence obtained. Accounting bodies, the government and other stakeholders who are interested in the activities of SMEs will be now in the position to make necessary adjustments in favour of SMEs in Zimbabwe. In conclusion, the IASB will be able to formulate decisions and make future plans based on this study concerning IFRS adoption for SMEs.

To the researcher, the study will assist in furnishing with financial reporting knowledge of SMEs.

1.7 Delimitations of the study

This research was carried out in Harare with the major focus directed at SMEs operating in the central business district. The researcher has taken into consideration periods from 2012 to 2016 when the SMEs started operating at the C.B.D. The city of Harare was chosen because it was where the researcher undertook his industrial attachment and had established relations with some of the business owners of the SMEs. The study focused on IFRS adoption by SMEs in order to scrutinize the reason behind the complainant made by lenders and financial institutions on the quality of SMEs accounting reports.

1.8 Limitations of the study

Despite the zeal to undertake a study of this magnitude at an undergraduate level, the research was affected by both financial and non-financial factors. Time constraints and inadequate resources to carry out the study affected the researcher. Moreover the unwillingness of the participants in providing with relevant information pertaining to this study limited the scope of this study.

1.9 Definition of Terms

Financial statements- According to Mbroh and Attom, (2012), financial statements are designed to classify, measure and record business data in order to produce meaningful information for stakeholders.

ZIMRA is the abbreviation for Zimbabwe Revenue Authority

SMEs stands for small medium enterprises.

CBD denotes the central business district

IASB refers to international accounting standard board.

IFRS stands for international financial reporting standards.

1.10 Chapter summary

This chapter outlined the problem statement and looked at the objectives under study supported by the sub-research questions. Significance of the study and limitations were also outlined in this chapter. Chapter two will focus on literature review.

CHAPTER II: LITERATURE REVIEW

2.0 INTRODUCTION

This chapter will highlight the literature review of the area under study. Skene (2012) describes literature review as a survey of every literature that has been written on any topic within a specific period of time. This section will likewise investigate what those authors distributed concerning the research topic which is separated into the determinants of accounting reporting, measurement criteria for the quality of information presented in the financial statements, the extent to which IFRS adoption enhances the quality of financial reporting of SMEs and looking at the benefits and key challenges of adopting IFRS for SMEs. In addition, an evaluation of the distributions from various authors is given.

2.1 DETERMINANTS OF FINANCIAL REPORTING QUALITY

Despite the many attempts made by academics in defining the term accounting quality, Dechow and Schrand (2005) points out that the quality of accounting reporting is determined by means of evaluating a firms accounting information. Soderstrom and Sun (2007) came up with three factors which they cited as the determinants of accounting or financial reporting quality. The determinants include, the nature of accounting standards, the legal framework and incentives directed to financial reporting. The author used Soderstrom and Sun (2007) findings to add to the literature review on the determinants of accounting quality.

2.1.1 Quality of Accounting Standards

According to Soderstrom and Sun (2007), the first determinant of accounting quality is the quality of accounting standards. The quality of accounting reporting can be influenced by a number of factors and among those factors, accounting standards have been identified as a significant factor. Khanagha (2011) supports this view by citing that the quality of accounting standards has an impact on the users' perception of the financial information. Chen et al.

(2010) show that the accounting reporting is assigned to IFRS (accounting standards). The authors further went on to highlight that accounting reporting had improved since the adoption of IFRS in the EU. In a study done by Gebhardt and Novotny-Farkas (2011) the authors discovered that after the mandatory adoption of IFRS the quality of accounting reporting for EU banks had been positively affected.

However, Chan, Hsu, and Lee (2013), Aubert and Grudnitski (2011) argued that mandatory IFRS adoption by companies in the US did not have a major impact on the accounting reporting as compared to those firms which had not adopted IFRS. The authors further explain that IFRS only affect countries of originality hence none adoption of IFRS will not affect the quality of accounting reporting.

In solidarity, Pope and McLeay (2011) gives a different perspective on their research as they highlight that IFRS alone either affect or does not affect accounting reporting but other factors which include environmental and political structures do play a significant role.

SMEs in the Harare central business district have in the past practising poor accounting reporting as evidenced by previous studies done by Maseko and Manyani in 2011. However since the introduction of IFRS for SMEs by the International Accounting Standard Board (IASB) in 2009, the set of standards have been embraced well in Zimbabwe with the uptake level approximately standing at 20% Mazhindu and Mafuba (2013). The move to adopt the standards is believed to improve the quality of accounting reporting of SMEs.

As evidenced by the above mentioned literature relating to accounting standards and the impact they have on the overall accounting reporting shows that there is a dearth of studies in this area relating to SMEs. Therefore there is much need for more research to be undertaken with regards to SMEs since they now have their own set of accounting standards.

2.1.2 The legal framework

The second determinant that was cited by Soderstrom and Sun (2007) was the impact of the legal framework of a country. The political and legal systems of a country influences the quality of accounting reporting Khurana and Michas (2011). This statement is further supported by Garcia- Sanchez (2013) and Navarro Galera et al (2014) on their research which they carried out in Spain and Europe respectively in which they concluded that the presence of conservative government and political rivalry negatively affected transparency of accounting statements. Another research done in New Zealand by Mir et al (2015) revealed that the level of political competition in the country affected the accounting reporting system of the public sector. Armstrong et al (2010) concluded that when IFRS was adopted in the EU, it stimulated controversy with the different governments.

However with a different view, Barth et al (2013) argues that the government and the political structure to a lesser extent does have influence on the accounting reporting. The author supports his argument with reference to USA firms who are managing to provide with comparability of financial statements between firms who mandatorily adopted IFRS and those applying US GAAP.

Zarova et al (2014) researched on political and social economic aspects and concluded that political issues and economic factors both play in hand to affect the quality of accounting reporting. The authors further explained that there is still a debate to assess whether if politics alone can influence accounting reporting since it takes more than one factor to disrupt accounting quality.

In the context of Zimbabwe, every company is expected to comply with section 140 of the Companies Act (chapter 24:03) when preparing their books of accounts. Both large and small companies are requested by the Zimbabwe Revenue Authority (ZIMRA) to prepare and submit their tax returns. Lalin and Sabir (2010) concluded that SMEs are driven by regulations to prepare financial statements.

In a nutshell, the political and legal systems of the country do impacts quality of accounting reporting. In the case of Zimbabwe, the government has been embracing the objectives of the IASB of providing with quality accounting information across the globe by means of endorsing acts and regulations that assist companies. However there is much need to research more on the impact of the legal framework on accounting reporting for African countries since much ground has been covered in European countries.

2.1.3 Financial Information Incentives

Sodestrom and Sun (2007) pointed out that financial information incentives was a determinant of accounting quality. The authors further divided the determinant into financial market development, capital structure, ownership structure and the tax system.

Financial information incentives affects the accounting reporting, Yip and Young (2012). Brown (2011) supports this view by citing that the investors' financial information leads to countries wanting to adopt IFRS in order to produce quality financial statements. In a research done by Jiao et al (2012) the authors considered that financial information incentives are significant in improving comparability of financial information across countries. The authors further went on to highlight that high quality and uniform accounting language in the use of financial information affects accounting reporting. In a study carried out in Australia by Bissessur and Hodgson (2012), it was concluded by the authors that informants' incentives were affecting the performance management and accounting reporting.

With regards to information incentives but with a different perspective, Cahan and Emanuel (2011) argue that firms do have different financial needs hence their capital structure affects accounting reporting. Florou and Pope (2012) discovered that firms are able to use financial information to raise capital provided that their countries had high security for investors. In addition, a research carried out for Swedish firms by Hamberg et al (2013) gave evidence on the impact of ownership on accounting reporting. The authors pointed out that Swedish firms who were owned by foreign investors negatively affected the accounting reporting. Khurana and Michas (2011) supported the notion of Hamberg et al (2013) which concluded that not only financial information and the capital structure of firms are the causes of poor accounting reporting.

In the case of Abedana and Gayomey (2016), the authors diverts their attention on financial information, capital structure and ownership as major attributes to accounting reporting and researched on taxation. The authors concluded that the tax system affects accounting reporting and if taxation and accounting were separated, then accounting information will become more relevant.

Focusing the attention to SMEs in the Harare C.B.D, a number of SMEs are controlled and operated by individuals or as family. With such form of ownership, the financial statements that are prepared are either incomplete or not relevant. As the literature has revealed, if financial information incentives are directed towards the development of SMEs through ownership, raising capital and allowing a conducive tax system, quality of accounting reporting for SMEs might improve.

In summary, financial information incentives such as taxation, capital structure and ownership do have an impact on the quality of accounting reporting. With different views been provided by the authors, there will be much need for more literature to be researched in this area pertaining to SMEs.

2.2 MEASURING CRITERIA FOR QUALITY OF ACCOUNTING INFORMATION PRESENTED IN THE FINANCIAL STATEMENTS.

Users of financial information such as investors, lenders and creditors do appreciate quality financial statements. This implies that information that is presented in the financial statements need to be measured for it to be reckoned as high quality accounting information. Therefore this part of the literature review will look into the measurement criteria that can be used in measuring accounting information.

2.2.1 The IFRS framework (2010)

The IASB issued a new revised version of the conceptual framework in September 2010 (Conceptual Framework of Financial Reporting 2010). The framework consists of qualitative characteristics namely relevance, faithful presentation, understandability and comparability. The objective of the framework is to provide with useful information for sound decision making which implies that for information to be useful, the accounting reports will be of great quality. Therefore the author used literature on the conceptual framework as a measure of quality of accounting reports.

2.2.1.1 Relevance

(IASB 2008) defines relevance as the capability of creating uniqueness in decisions made by users' of financial statements. Relevance consist of the predictive and confirmatory value. Researchers tend to focus on earnings quality instead of on financial reporting quality but however the author will consider a broader perspective on predictive value to measure quality of accounting reports. When information presented in the financial statements indicates that the firm is able to generate future cash flows, the scenario is referred to as having a predictive value (IASB 2008). When it is possible to change or confirm previous or present expectations, the information will be considered to have a confirmatory value (IASB 2008).

Jonas and Blanchet (2000) argued that future changes can be made after feedback has been received from users of financial statements.

2.2.1.2 Faithful Presentation

According to IASB, Faithful representation is the second fundamental qualitative characteristic. With faithful presentation, information has to represent what it purports to represent and the information should be free from error (IASB, 2008; 36). Acknowledging previous literature, faithful presentation measurement consists of five elements namely neutrality, completeness, freedom from material error and verifiability. It is argued that despite the proxy "free from bias" under faithful representation, financial statements do have a chance of containing errors since estimates and different circumstances are used in preparing them IASB (2008). Jonas and Blanchet, (2000) supports the idea of having to scrutinise first the financial statements before making any decisions since they might contain errors. However since a complete elimination of bias cannot be achieved, the IASB encourages prepares of financial statements to make reasonable estimates.

Neutrality is concept which looks into the preparation of financial statements by focusing on both events either positive or negative. Induced in the faithful representation concept, is the auditors' report and according to Gaeremynck and Willekens, (2003); Kim et al., (2007) and Willekens, (2008), the auditors' report adds value since it provides with reasonable assurance which will enhance the principle of faithful representation. (Sloan, 2001; Holland, 1999) concluded that good corporate governance produces quality information which will enhance the concept of faithful presentation.

2.2.1.3 Understandability

The level of understandability increases if information is clearly presented in the financial statements. Understandability is taken into account when users of financial statements are able to understand and appreciate the data presented (IASB, 2008). For it to be appreciated as qualitative characteristic, understandability has to emphasize the transparency and clearness of the information presented in the accounting reports (Jonas & Blanchet, 2000; Iu & Clowes, 2004; Courtis, 2005; IASB, 2006). This denotes the degree at which the information is structured and presented in the financial statements. The structure in which the balance sheet and the income statement is prepared by means of disclosure through notes depicts the concept of understandability, Beretta & Bozzolan, (2004). In addition,(IASB, 2006; Jonas & Blanchet, 2000) further encourages the use of tables and graphs when presenting financial statements in order to improve understandability.

2.2.1.4 Comparability

Comparability is a second enhancing qualitative characteristic. It is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena (IASB, 2008). Comparability includes the consistent application of accounting procedures and also the ability to compare financial statements of different entities (IASB 2008). (Jonas & Blanchet, 2000) concludes that it is important to take note of the accounting policies used and other events when making comparison of reports of different companies.

2.2.1.5 Timeliness

According to ED, Timeliness is the final enhancing qualitative characteristics. Timelines can be viewed as making information available to end users of financial statements before it loses value" (IASB, 2008). It is important for end users of financial statements to have adequate time to reveal the financial statements therefore timeliness considers the time taken by the users to reveal the information (IASB, 2008). When measuring the degree of quality of reports, timeliness uses the natural logarithm which involves the number of days within a year and the signature included on the auditors' report, IASB (2008)

2.2.2 Value relevance method

Value relevance is used when measuring the value of a firm by use of accounting information which is presented in the financial statements. Narktabtee and Patpanichchot (2011) carried out a research on value relevance and noted that in European countries such Denmark, Germany and Italy, the adoption of IFRS improved the concept of value relevance. In support of using value relevance, Nafti et al. (2013) made a study in France and concluded that the application of IFRS had made significant changes to the data which was overally presented in the statements. In Turkey, Uyar (2013) applied the valuation approach in measuring accounting data and contended that there were significant changes reflected on the book values since adopting IFRS.

However Takacs (2012) argues that the use of value relevance in Romania reviewed that IFRS adoption resulted in accumulating a negative result on accounting data. Kousenidis et al (2010) further argue that in Greece value relevance approach showed that IFRS reduced the incremental information content of book values of equity for stock prices. In Malaysia, Kadri et al (2011) argued that value relevance was inappropriate to apply in the country as it did not improve the relevance of earnings after new standards were endorsed.

Maggina and Tsaklanganos (2011) applied the valuation method in their research in Greece and noted that there were no effects caused by IFRS on stock prices and returns. Klimczak (2011) also concluded that the use of value relevance for measuring accounting information in Poland after IFRS adoption is relatively insignificant.

The difference views that the authors are giving with regards to using value relevance as a measure of accounting data shows that there is need for more research to be undertaken in this area.

2.2.3 The credit relevance approach

Creditors and lenders specific needs can be met by using credit relevance method in the quest of assessing the effect of adopting IFRS on the usefulness of accounting data. Kosi (2010). The author researched on European countries who had adopted IFRS such as Austria, Finland, France, and Germany by using the credit relevance approach and noted that profit and interest matters had significantly increased in countries with high standard legal frameworks In support of using credit relevance as an accounting measure for financial information, Pizzo (2014) looked at IFRS adoption and the impact it has on the cost of debt and concluded that it was useful to use the credit relevance approach.

Alissa et al (2013), and Jung et al (2013) argued that the fluctuation changes of companies credit ratings could not be reviewed by use of credit relevance approach rather the management exercise discretion was noted as the cause.

Evidenced by the literature provided by the different authors on the credit relevance approach, it depicts that there is a deficiency of studies which look into this accounting practise. This gives room for studies to be conducted which will assess the applicability of the credit relevance approach.

2.2.4 The extent of earnings management practices

Earnings management practises emanates when managers do have an intention of misleading other stakeholders about the economic performance of a firm, Mussalo (2015).

Zang (2012) realised that firms who produce less bloated balance sheets are perceived to have more opportunities of applying earnings management as a measurement tool. A study also done by Liu (2010) provided evidence which showed that firms use earnings management by means of overstating the provision for bad debts figures and understating net assets. Studies done by Hellman (2011), Bentwood and Lee (2012), Chalmers et al (2011) and Zeghal et al (2012) supports the use of earnings management as measuring tool for financial data. The authors went further to highlight that there was persistent application of earnings management in European countries after the adoption of IFRS.

Chen et al (2010), argued that the application of earnings management had declined in countries such as Portugal, Netherlands, Spain and France after the mandatory adoption of IFRS. For firms outside the European Union, Lopes et al (2010) also argued that the adoption of IFRS resulted in a negative result for earnings management practises. Boumediene et al (2014) and Bouchareb et al (2014) argued that the degree of earnings management practise had decreased in France since the mandatory adoption of IFRS.

Neutral author Chua et al (2012) undertook a research in Australia, from the periods 2001 to 2009, and noted that there was either no significant or significant application of earnings management by companies who had adopted IFRS.

In summary, the various authors have reviewed that earnings management can be used as measuring tool of accounting data which is presented in the financial statements. However the authors have given different expressions on earnings management practise therefore this gives room for further research to be done with regards to the use of earnings management in Zimbabwe.

2.2.5 Timeliness of loss recognition

Accountants use timely loss recognition when measuring accounting data by means of recognising losses when they occur and applying the best estimate which reflects the true amount.

In Greece Dimitropoulos et al (2013) researched on 101 companies which were listed on the Athens stock exchange and concluded that there was more timely loss recognition application in measuring accounting data. Uyar (2013) supports the increased use of timely loss recognition by Turkish firms since the adoption of IFRS. According to Skaife et al (2013), timely loss recognition is used to reduce manager's information advantage over the investors.

Both Ahmed et al (2013) and Chen et al (2010) argued that the level of using timely loss recognition by European firms had decreased after IFRS adoption. They further explain that adoption of IFRS had eradicated the use of timely loss recognition despite improving value relevance and earnings management.

As evidenced by the author's views on timely loss recognition, it shows that few studies have been researched in this area. Hence further research is critical in order to provide with empirical evidence on the use of this measure.

2.2.6 Accounting conservatism

In the event that uncertain conditions arise, accountants use accounting conservative measures when preparing financial statements in order to avoid overstating income and understating expenses and obligations, Sana'a (2016). According to Jaggi and Xin (2014), the importance of using accounting conservatism in measuring quality accounting data is the fact that it enhances the credibility of management when they disclose losses in a timely manner. Ramalingegowda and Yu (2012) noted that a firm will favour to apply accounting conservatism provided that institutional investors are willing to hold more shares.

Wang et al (2012) supported the use of accounting conservatism when they tested the applicability of the C-score in the Taiwan capital market. The authors further noted that accounting conservatism is an appropriate tool to use when analysing investment risks. Jomely (2014) depicts that accounting conservatism is applied by industrial companies who aim to reduce the financial failure risks. For Jordanian companies, Egbal et al (2014) clarified the use accounting conservatism and concluded that the policy was been used in preparing more balanced financial reports.

With a negative view, Ismail and Elbolok (2011) tested the use of accounting conservatism in Egypt and concluded that the measure produced a negative result on the quality of profit and stock prices. Biddle, Ma and Song (2010) suggested that accounting conservatism was an inappropriate measure of accounting data as it yield a negative relationship with the risk of bankruptcy. Al-Sakin and Al-Awawdeh (2015) argued that accounting conservative is not a good measure as it can lead to distortion of accounting data and up reflecting values which are not true.

The literature on accounting conservatism depicts mixed concerns by different authors. Sadly much has not been researched in Africa with regards to the effects of accounting conservatism. Therefore this gives an opportunity for future research to be conducted in this area. The different accounting measures which have been discussed by the authors still need to be scrutinized in the context of SMEs and assess whether they are been applied.

2.3 THE EXTENT TO WHICH IFRS FOR SMEs ENHANCES THE QUALITY OF FINANCIAL REPORTING OF SMEs

One of the objective of the International Accounting Standard board when it introduced IFRS for SMEs was to assist SMEs in preparing quality accounting reports which would provide with enhanced comparability for accounting users IASB (2016).

Kim (2012) performed a study in Russia to assess the impact level of IFRS adoption for SMEs on value relevance of information presented in the financial statements. The author concluded that the IFRS had improved information quality. A similar study done in Romania by Pascan (2010), Neag (2011) and Bolos (2011), concluded that there was no improvement of quality of accounting reports and new controversy had emanated on Romania accounting practices after the adoption of IFRS for SMEs.

Bhattacharjee and Hossain (2010) cited that IFRS for SMEs had enriched quality of financial reporting. In support of IFRS for SMEs enhancing quality of accounting reports, Tan, Wang and Welker (2011) found that IFRS for SMEs attracted foreign analyst and enhanced the usefulness of accounting data. Hussain, Chand and Rani (2012) also concluded that IFRS for SMEs had improved financial reporting and attracted foreign investors in Fiji.

A study in Greece carried out by Latridis and Rouvolis (2010), gave a negative result on the application of IFRS for SMEs as the authors discovered that the IFRS did not yield any value relevance of information. The authors argued that by means of a return model, IFRS for SMEs did not yield any quality accounting reports. Jerman and Ivankovic (2011) argued that IFRS for SMEs was not designed for taxation purposes hence it was not going to enhance quality financial statements.

Neutral authors Mage (2010), Bunea-Bontas et al (2011) and Uddin et al (2011) concluded that IFRS for SMEs has less significance in enhancing the quality of accounting reports for SMEs.

The above argument shows mixed opinion on the impact of IFRS for SMEs on the quality of accounting reports. In relation to Zimbabwe, there is no study that has been done to assess the impact of IFRS for SMEs since it was adopted and this research will seek to provide with empirical literature.

2.4 BENEFITS AND CHALLENGES OF ADOPTING IFRS FOR SMEs

2.4.1 Benefits of adopting IFRS for SMEs

According to IASB (2010), IFRS for SMEs was perceived to provide with the following benefits: improving the comparability of financial information, to create links with foreign countries either by proposed partnerships or business arrangements, help SMEs access the international market and enhancing the financial muscle of SMEs.

2.4.1.1 Improving comparability of financial statements

Bunea-Bontas et al (20110 urges that IFRS for SMEs enhances confidence in the reports of SMEs. In Zimbabwe, Mazhindu and Mafuba (2013) researched on the adoption of IFRS for SMEs in the country. Their findings reflected that SMEs would derive benefits which include comparability of financial statements, creating investor confidence, experiencing growth through accountability and tax compliance.

Rudzani and Manda (2016) provided with empirical evidence on the impact of adopting IFRS for SMEs in the Vhembe district of South Africa. The authors concluded that adoption of IFRS by the Vhembe district SMEs had enabled them to have easy access to loans and grants, conducting business with the government via tenders and helping comply with the tax regulations and making it possible to compare different financial statements with other businesses. In support of improvement on comparability of accounting ‘reports, Pascu (2011) alluded that IFRS for SMEs had enabled international comparability between financial reports of a large number of entities.

However countries such as Australia argue that IFRS for SMEs still appear to be complex in recognition and measurement principles and is not improving comparability of accounting reports (AASB, 2010a). This research will seek to assess if the IFRS for SMEs has made any strides in improving comparability of accounting reports.

2.4.1.2 Creation of a global market link with foreign countries

According to Pascu (2011), the IFRS for SMEs has opened a gate way to the global market for SMEs. The author further explains that the IFRS was facilitating cross border trade, foreign mergers and acquisitions and international growth of companies.

Carini et al (2013) argues that in countries were bankers' dominate, there is no adherence to the IFRS for SMEs hence relationship is undermined with the global market. Additionaly, Sautet (2013) further argue that SMEs in other countries prefer local connections than foreign partnerships. Jerman and Ivankovic (2011) added that there is no benefit for SMEs that operate locally to adopt IFRS for SMEs since they do not fancy international trade.

2.4.1.3 Compliance with Government regulations

In Zimbabwe, Mazhindu and Mafuba (2013) highlighted that growth was inevitable for SMEs who had adopted IFRS as they were now complying with government regulations. The authors noted that accountability and tax compliance attracted the government to assist SMEs grow and expand. A similar scenario was noted by Rudzani and Manda (2016) in South Africa were SMEs who had adopted IFRS for SMEs and complying with the government were enjoying the benefits of having to conduct business with the government via tenders. Pascu (2011) added that the IFRS for SMEs had provided more harmonised information to stakeholders such as the government.

According to Perera and Chand (2015), the adoption of IFRS for SMEs has confronted with national legislation in other European countries. Countries such as Lebanon, Slovakia, Austria and Russia, IFRS for SMEs is used solely for tax purposes (IFRS Foundation 2011). As cited by PCW (2010), France rejected the adoption of IFRS for SMEs arguing that the standard did not fit well with France tax system and accounting framework. This implies that preparation of separate financial statements and tax reports are perceived to be a burden among SMEs. Albu et al (2011) noted that countries which were perceived of secrecy and fraud lacked resources for regulation and enforcement of adopting IFRS for SMEs. Siqueira et al (2014) further argue that IFRS for SMEs has driven more SMEs to operate informally as they perceive it costly to comply with government regulations.

2.4.1.4 Financial assistance and easy access to loans

Mazhindu and Mafuba (2013) carried out a study in Zimbabwe to assess the adoption level of the IFRS for SMEs and concluded that for those SMEs who had adopted the IFRS were having financial support from financial institutions. The authors cited that banks were now willing to lend to SMEs and assisting them in having a healthy financial muscle. Similarly in South Africa, Rudzani and Manda (2016) noted that SMEs located in the Vhembe district who had adopted IFRS were having easy access to loans from banks as compared to those who had not yet adopted IFRS for SMEs. Additionally Pascu (2011) further highlight that IFRS for SMEs had increased the confidence and satisfaction in financial reporting on the needs of lenders. In support of easy access to loans, Mage (2010), had the view that the IFRS for SMEs improved access to capital.

Hyz (2011) argues that despite adopting IFRS for SMEs, access to finance still remain a major constrain to SMEs because of the stringent and complex requirements imposed by financial institutions when borrowing. Riva and Salotti (2015) noted that SMEs still find it difficult to improve their financial health despite adopting IFRS.

Hail, Leuz and Wysocki (2010a, 2010b); Christensen (2012) do still see it as a matter of debate on the advantages of adopting IFRS for SMEs.

Although the authors have managed to come up with different benefits of adopting IFRS for SMEs, there is still knowledge gap needed to be filled, therefore this study will seek to furnish with such knowledge to assess if indeed SMEs are benefiting from IFRS in Zimbabwe since the adoption era.

2.4.2 Challenges of adopting IFRS for SMEs

Besides the IASB expecting IFRS for SMEs to assist and improve the financial reporting of SMEs, the standard has its own pros and cons. In countries were IFRS for SMEs has been implemented, there has been some negative responses and this part of literature review will provide with evidence of the challenges of adopting IFRS for SMEs.

2.4.2.1 Lack of training and skilled resources to implement IFRS.

In Zimbabwe SMEs are lacking awareness and capacity in adopting the IFRS for SMEs, Mazhindu and Mafuba (2013). The authors further highlighted that the challenge SMEs were facing from adopting the IFRS was the failure to apply the standard due to lack of ignorance. A similar study done in South Africa by Lekhanya (2013) showed that in Kwazulu-Natal rural area, SMEs owners lacked financial management skills and could not apply IFRS well due to scarcity of training and skilled resources. Albu et al (2011) cited that inadequate resources for implementing IFRS was a major setback for SMEs.

Richardson and Eberlein (2011) pointed out that the operating language for the IFRS was English hence in countries were English is a secondary language, the standard gave problems for SMEs to apply it. An example was in Turkey were SMEs found it difficult to translate into local language. In ASEAN countries, Samujh and Devi (2015) concluded that the IFRS for SMEs was not yielding any benefits rather it posed a burden to growth and reduced entrepreneurship activities. This had emanated from the fact that the IFRS for SMEs was made available in English and a number of ASEAN countries could not interpret.

However in countries such as New Zealand, the government has making positive strides in assisting SMEs implement the IFRS for SMEs, (NZ government 2013). Albu et al (2011) points out that countries that avoids secrecy and fraud were managing to assist with resources for regulation and enforcement of adopting IFRS for SMEs.

2.4.2.2 The cost of implementing IFRS

The costs of implementing was also noted a challenge in adopting IFRS for SMEs in Ethiopia. In support with Alemi and Pasricha (2016), Rudzani and Manda (2016) noted that SMEs in South Africa were experiencing extra costs in implementing the IFRS for SMEs. This is believed to be caused by the inability to acquire relevant resources that will assist in implementing the IFRS.

Pascu (2011) argued that the standards were too complex and applying them meant that there was now need for new methodology, redesigning the internal processes and training the staff on new accounting system. The author further explained that different stakeholders who were used to current accounting rules would find it difficult and costly to implement new rules. As a result, the need to prepare another set of accounts for tax purpose would be pricy that is if the government request for them.

Bunea-Bontas et al (2011) argued that the cost of implementing the IFRS for SMEs will be significantly reduced. Samujh and Devi (2015) prompted that the arguments against IFRS for SMEs were persuasive and there was further need to identify the impact of the standard in different countries before a conclusion could be made. Albu et al (2011) pointed out that lack of expertise and accounting knowledge by SMEs owners was a challenge SMEs were facing in adopting the IFRS. In Ethiopia, Alemi and Pasricha (2016) concluded that IFRS knowledge Gap and resistance to change was a challenge the country was facing in adopting the IFRS for SMEs.

Although the above empirical evidence and literature has tried to provide with the challenges of adopting IFRS for SMEs, there is still a knowledge gap of the impact of IFRS on the quality of accounting reports. This study will seek to add to the literature of the challenges facing SMEs by means of providing with empirical evidence.

2.5 CHAPTER SUMMARY

This chapter gave a glance at the different views of different authors on the determinants of accounting reporting and measurement of financial information presented in the financial statements. It also looked at the degree of IFRS for SMEs enhancing accounting quality and the benefits and challenges of adopting the IFRS for SMEs. The next chapter which is chapter three will be looking at the research method that will be applied in order to assist in collecting relevant information for this study.

CHAPTER III: RESEARCH METHODOLOGY

3.0 INTRODUCTION

The chapter will look into the methodology used by the researcher in his quest to gather the relevant data on the area under study. Explanations and justifications of the research method, approach and design will be outlined in this chapter. The study population and the sampling technique to be used in carrying out the study will be highlighted in the chapter. Research instruments to be used in retrieving data from the participants and the justification on using the selected instruments will be explored in this chapter. The chapter will end with matters relating to the reliability and validity of data and taking into consideration ethical implications.

3.1 RESEARCH APPROACH

The researcher opted to use a qualitative research method under his research approach. According to Harwell (2011), the qualitative method is centred in exploring the personal opinions of respondents without giving room to bias. The method endeavours to make an analysis on the research topic by using the participant's perception. Qualitative research will enable the researcher to have a clear vision on what to expect about the effects of adopting IFRS for SMEs. As supported by Oppenhein (2010), qualitative research will provide with chances to the researcher in coming up with valid answers, since the researcher cannot influence the respondents. To the researcher, this approach was deemed to be cost effective when collecting data. Hancock, Ockleford and Windridge (2009) supports that qualitative research takes into consideration data that cannot be expressed numerically.

3.2 RESEARCH DESIGN

Research design gives a clear picture of how the research will be undertaken, Harwell (2011). According to Creswell (2013), a research design should be equipped with the research procedures, questions, methods and conclusions. Broadhurst et al (2012) concludes that the purpose of research design is to act as guideline in answering the research questions.

3.2.1 Exploratory Research Design

According to Morrow and Ricketts, (2013), a research design will help in giving an understanding on the problem under study and allow room for further studies to be undertaken. The research was mainly centred on clarifying the financial reporting of Zimbabwe SMEs and the author opted for this design. The problem was aimed at analysing the effects of embracing IFRS for SMEs on the quality of financial reporting. It was pivotal to explore in these areas of study since there is a dearth of studies in Zimbabwe which have looked at measures of improving the financial reporting of SMEs in Zimbabwe. Darko (2015), concludes that an exploratory research design seeks to analyse different studies which are characterized by scarcity of knowledge

3.2.2 Justification of Research design

Harwell (2011) supports the application of exploratory research when using the qualitative methods because there is room for participant's to give their views without being forced to respond like in the manner of the quantitative approach which uses closed questionnaires. The study aims to explore the effect of adopting IFRS for SMEs. The researcher choose to use the exploratory research design as it gave room for participant's to answer the questions under study without being limited with closed questionnaires.

3.3 Study Population

The Fairfax County department (2012) explains population as the universe of all elements being measured by a sample. Rew et al., (2013) supports this same view by citing that the entire group under study is determined by research objectives. The study population for the research will be 37 SMEs located in the Harare Central Business District. Under the target population, the study will only incorporate owners or managers of the SMEs.

STUDY POPULATION TABLE

SECTOR	**STUDY POPULATION**
Retail (shops)	**17**
Manufacturing	**9**
Others	**11**
Total	**37**

3.4 Sampling

Even if it were possible, it is not necessary to collect data from everyone in a community in order to get valid findings. In qualitative research, only a sample (that is, a subset) of a population is selected for any given study Rew et al (2013). According to Hague (2010), the study's research objectives and the characteristics of the study population determine which and how many people to select. The three of the most common sampling methods used in qualitative research are purposive sampling, quota sampling, and snowball sampling.

3.4.1 Sampling Procedures

Creswell and Clark (2011) denotes sampling procedure as strategies used by the researcher as part of recognizing and selecting people that are particularly experienced with a phenomenon of interest. The researcher used the purposive sampling despite difference techniques which were available.

3.4.1.1 Purposive Sampling

Purposive sampling, according to Rew et al. (2013) is one of the most common sampling strategies, groups' participants according to preselected criteria relevant to a particular research question sample sizes, which may or may not be fixed prior to data collection, depend on the resources and time available, as well as the study's objectives. In addition, Fairfax County department (2012) explains purposive sample sizes as often determined on the basis of theoretical saturation. Purposive sampling is therefore most appropriate when data is simultaneously reviewed and analysed using the data collected.

Sample size table

SECTOR	STUDY POPULATION	TARGET POPULATION	% OF TOTAL
Retail (shops)	**17**	**13**	**76**
Manufacturing	**9**	**3**	**33**
Others	**11**	**2**	**18**
Total	**37**	**18**	**48**

From a population consisting of 37 respondents, the researcher opted to target 18 respondents. Mathematically, the selected target population represents 48.6% out of the 37 population size. In conjunction with Best et al (2009), the sample closer to 50% which denotes that it is ideal when dealing with a target population size with a 100 range. To the researcher, this sample is convincingly adequate to stand for the overall population.

3.4.2Justification of Sampling Method

The researcher opted to use the purposive sampling because of its benefits over the other qualitative sampling methods. Accordingly studies employ purposive rather than quota sampling when the number of participants is more of a target than a steadfast requirement, Mack et al (2005). With the attention centred at SMEs in the Harare CBD, purposive sampling will be ideal method to use. This esteems from the fact that owners of the SMEs will be expected to provide with the relevant information on the area under study.

3.5 Source of Data

As part of the source data, the researcher used primary data.

3.5.1 Primary Data

According to the Concordia University (2010), primary source of data is established while undertaking the research. Further to explain the nature of primary data, Creswell (2013) denotes that there should be a link which is directly connected to the events which the research is focusing on. The University of Minnesota (2013) clarifies primary source data as first-hand information which is free from manipulation that would have been derived by means of individuals expressing their opinions on the matter under study. The use of in depth interviews was used as primary source data in this research.

3.6 Research Instruments

Annum (2014) views research instruments as means of finding and collecting data using methods like interviews, questionnaires, reading and observations. In this research, the researcher used interviews and open-ended questionnaires. According to Bowling (2002), interviews do help in retrieving data from respondent's with easy and unexplained matters will be explored. While on the other hand, open-ended questionnaires do not restrict the respondent on what say, Oppenhein (2010).

3.6.1 Interviews

Interviews enables the researcher to collect relevant data and is mostly used when carrying out a qualitative research, Zohrabi (2013). For an in depth response to the effects of adopting IFRS for SMEs, the researcher used interviews and the owners and managers were made to respond to the interview questions taking into consideration their personal views upon the are under study. Allowing respondents to give their own insights of the matter under study is supported by Bryman (2008) who cites that respondents are given the freedom to express their feelings without been limited. The interviews significantly assisted in gathering data which was free from bias and manipulation. The issues concerning the effects of adopting IFRS for SMEs were clearly and briefly outlined through these interviews.

3.6.2 Open-ended Questionnaires

Oppenhein (2010) cites that researchers do use questionnaires and interviews when collecting data. The researcher opted to use open-ended questionnaires as they are viewed by Jey, Harrison and Newman (2009) as the best instrument to use since they do not limit the answers of the respondent. According to Kumar and Ranjit (2005), open ended questionnaires do not include boxes were respondents will tick, rather there will be space given for the respondents to fill. Since the researcher is interested in the opinion of the respondents about the effects of adopting IFRS for SMEs, few questionnaires will be distributed.

3.6.3 Justification of the research instruments

Saunders et al. (2007) argued that the quality of information which is gathered during the research depends on the instruments used. The author further stresses out that designing of research instruments is key to obtaining quality data According to Cornford & Smithson

(2006), structuring interview questions has to be taken with delicate as links should be formulated with the research questions.. However, a flexible design was taken into account when developing such guide Kumar and Ranjit (2005). The interview will be used because of the advantages it poses. There will be room to ask for further details of the study in. The non-response rate will be kept at minimum and adequate time will be on each interview. It will also permit greater flexibility in various aspects such as questioning technique. The respondents will have freedom to answer the questions that will be raised during the interview.

According to Zohrabi (2013), the negative side of using interviews is the fact that it will not be easy to formulate and arrange data in an orderly manner. By means of using the research questions, it will enable the researcher to obtain relevant and reliable information from respondents. The open-ended questionnaire will be an appropriate instrument to use for the researcher as this assist in obtaining unlimited data on the question asked. Due to the nature of the research, the open-ended questionnaires will cover up the gap of information not made available through interviews, Holland (2013).

3.7 Reliability and Validity

According to Zohrabi (2013) the author urges researchers to strife in producing reliable and valid information. Greener and Martelli (2015) evaluates validity as the clear presentation of an observation. In order to improve the reliability and validity of the research, the researcher compared all the information acquired for research objectives. Trustworthiness is a term which is applied in qualitative research which is related to validity and reliability of data under the quantitative method, Marshall and Rossman, (2010).

3.8 Ethical Consideration

One of the most critical area of data collection is the consideration of ethical matters of the study. According to Saunders et al. (2007), research ethics generally looks at the integrity level portrayed by the researcher to those who are subject to participate in the area under study. The ethical implications are likely to emanate during the process of research when collecting, analysing and reporting the Sekaran and Bougie (2010). In this research, ethical considerations such as confidentiality and protection of participants were used.

3.9 Data Analysis and Presentation

After the completion of data collection, analysis and presentation has to be done. The process of analysing data will involve inspecting, transforming and making relevant conclusions which will assist in decision making (Wikipedia, 2012). Citing the facts provided by Mosby's Medical Dictionary (2009), the data analysis phase involves tabulating information in order to perform qualitative and quantitative analyses. The analysis of qualitative data was carried using the relevant information obtained from the open ended questionnaires and interviews that were conducted in the study.

3.10 Chapter Summary

The chapter presented the adopted research methodology that guided the present research study. In summary, to achieve the aim of the study, a qualitative method approach was utilized. This approach was deemed appropriate, but extremely challenging. The next chapter which will be chapter four will look into data interpretation and analysis.

CHAPTER IV: DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This chapter will give an insight on the presentation and analysis of the data which was collected by the researcher pertaining to the effects of adopting IFRS for SMEs on the quality of accounting reports. The findings were based on the responses which were obtained through the open-ended questionnaires and interviews that the author administered

4.1 RESPONSE RATE

Table 4.1.1 Questionnaires Response rate

RESPONDENTS CATEGORY	TARGETED RESPONDENTS	ACTUAL RESPONDENTS	RESPONSE RATE
Retail (shops)	13	7	53.8%
Manufacturing	3	2	66.7%
Others	2	2	100%
Total	18	11	61.1%

Source: primary data

Evidenced by the table illustrated above, the overall response rate of the open-ended questionnaires which were administered was 61.1%. A total of 18(100%) questionnaires were distributed to the targeted SMEs in the Harare Central Business District and only 11(61.1%) were responded and 7(38.9%) were not responded. According to Wegner (2010), the author acknowledges the importance of providing with valid and reliable data. The author further concludes that, for data to be considered reliable and valid, the rate should be at least 50%.

Accordingly, the collected data reflected a rate of 61.1% which qualifies it to be reliable and valid. Zohrabi (2013) supports the need of validity and reliability of data in order to enhance the quality of data been collected.

4.2 RESPONSE TO OPEN-ENDED QUESTIONNAIRES

With reference to the methodology that the researcher used, open-ended questionnaires were used in order to give enough room for participants to comment and give further suggestions. As highlighted earlier by the questionnaire response rate table, a relatively moderate percentage of respondents answered the questionnaires. The collected data the 11 respondents was then analysed according to the structure of the questions as follows**;**

4.2.1 Determinants of financial reporting quality

Table 4.1 Determinants of Financial Reporting

RESPONSE/CHOICE	FREQUENCY	PERCENTAGE
The legal framework	**11**	**100%**
Accounting standards	**9**	**81.8%**
Ownership	**3**	**27.3%**
Capital structure	**2**	**18.2%**
Financial reporting incentives	**1**	**9.1%**

Source: primary data

The question was designed to answer on the factors that have been affecting the quality of financial reporting. All the 11 respondents from all the sectors noted the impact of having to adhere with the regulatory authorities like the Zimbabwe Revenue Authority (ZIMRA) as the major driving force for preparing financial statements. In relation to the quality of accounting standards, 7 respondents from the retail sector applauded the importance of using accounting standards as a guideline of producing quality accounting reports. Two respondents (100%) from the manufacturing sector cited the use of accounting standards as a major determinant of financial reporting. One of the respondent from the manufacturing sector cited the significance of ownership when it comes to financial reporting. The respondent further stressed out that the owners of the business influences whether financial statements are to be prepared in accordance to IFRS. The two other sectors namely the financial service providers and the food industry concluded that the capital structure and ownership of their business influenced the nature of accounting reporting.

Only one respondent from the financial services provider noted the impact of financial reporting incentives as a motivation behind preparing quality accounting reports. The evidence provided by the respondents about the determinants of accounting reporting quality are supported by Sodestrom and Sun (2007) who pointed out that there are three determinants namely; quality of accounting standards, the legal framework and financial reporting incentives. In a nutshell the outstanding 100% respondent rate on the impact of the legal framework shows that to a greater extent the political structure and legal system of a country influences the quality of accounting reporting.

4.2.2 Measurement criteria for accounting data presented in the financial statements.

Table 4.2 Measurement methods for accounting data

RESPONSE/CHOICE	FREQUENCY	PERCENTAGE
Accounting conservatism	4	36.4%
The conceptual framework	11	100%
Earnings management	3	27.3%
Timely loss of recognition	1	9.1%
Value relevance approach	3	27.3%
Credit relevance approach	3	27.3%

Source: primary data

The purpose of this question was to allow respondents in particular the managers or owners of the business to briefly highlight the methods they use when assessing the quality of accounting data presented in the financial statements. The 11 participants across all sectors praised the use of the conceptual framework in assessing the quality of accounting data after preparation of financial statements. Two out of seven respondents from the retail sector mentioned the application of the earnings management practise in measuring quality of accounting data. 0nly one respondent noted the use of timely loss of recognition when measuring quality of accounting data within the retail sector. Still looking at the retail sector, 3 respondents supported the use of value relevance approach by measuring the value of the retail shop using the information presented in the financial statements. One respondent in the retail sector approved the application of credit relevance approach in measuring the quality of accounting data.

The manufacturing sector had all two respondents citing the use of accounting conservatism in measuring the quality of data. Just one respondent noted the involvement of the earnings management practise in the manufacturing sector. Other sectors involving the food industry and the financial services providers prompted an application of both the credit relevance approach and the accounting conservatism method when measuring the quality of accounting data presented in the financial statements. The reaction towards the use of the accounting conservatism method supports the notion of Egbal et al (2014) who pointed out that Jordanian SMEs favoured the use of accounting conservatism when preparing balanced financial reports. From the information presented by the table above it shows that at least each method mentioned in the literature review is used when measuring accounting data with the conceptual framework dominating the proceedings.

4.2.3 The extent to which IFRS adoption enhances the quality of financial reporting for SMEs

Table 4.3 The extent to which IFRS adoption enhances quality of financial reporting

RESPONSE/CHOICE	FREQUENCY	PERCENTAGE
Positive	**5**	**45.5%**
Neutral	**3**	**27.3%**
Negative	**3**	**27.3%**

Source: primary data

The question was designed for respondents to give their views on the degree of significance that IFRS for SMEs had embedded financial reporting quality. Findings from the retail sector showed that four respondents praised the importance of IFRS for SMEs by citing that their financial reporting practices had improved since adopting the IFRS. One respondent from the manufacturing sector stressed out that the adoption of IFRS for SMEs had made a negative impact on the quality of financial reporting.

Two respondents from the retail sector were still not in a position to comment if the IFRS for SMEs had made an impact on the quality of financial reporting. The respondents further prompted that there was need for further analysis after at least two years to evaluate the significance of IFRS on accounting reporting of SMEs. In literature, Mage (2010), Bunea-Bontas et al (2011) and Uddin et al (2011) were neutral on the impact of IFRS for SMEs and prompted the need for further research.

The manufacturing sector two respondents all had a negative view towards the adoption of IFRS for SMEs citing that the standards were inappropriate with the nature of the business environment. In favour of the manufacturing respondents, Jerman and Ivankovic (2011) argued that IFRS for SMEs was not designed for taxation and this would undermine the quality of accounting data. The other sectors had mixed feelings on the extent to which IFRS for SMEs had enhanced quality of accounting reports.

The food industry stressed out that they were yet to judge if there are any changes the IFRS had made. While the financial services providers expressed tremendous positive changes since adopting IFRS for SMEs and noted that it was now easier to articulate the information presented in the financial statements. This is supported in literature by Tan, Wang and Welker (2011) who noted that IFRS for SMEs had enhanced the usefulness of accounting data.

4.2.4 Benefits and key challenges of adopting IFRS for SMEs.

Table 4.4 benefits and challenges of adopting IFRS for SMEs

BENEFIT/CHALLENGE	FREQUENCY	PERCENTAGE
Financial assistance	**6**	**54.5%**
Compliance with regulatory authorities	**11**	**100%**
Involvement of foreign investors	**5**	**45.5%**
Government relations	**1**	**9.1%**
Global market connections	**1**	**9.1%**
Inadequate resources	**4**	**36.4%**
Additional costs	**9**	**81.8%**
Complexity of IFRS language	**5**	**45.5%**

Source: primary data

The last questions included in the open-ended questionnaire gave the platform for respondents to express their views on the benefits and challenges that they have been experiencing since adopting IFRS for SMEs.

4.2.4.1 Benefits

To start with, five respondents from the retail sector noted the benefit of having easy access to financial assistance from lenders. All the 11 respondents who participated from all sectors cited that the IFRS had improved the level of compliance with authorities like ZIMRA. Mazhindu and Mafuba (2013) supported this view by citing that Zimbabweans SMEs better complied with regulatory authorities when they adopted IFRS. Another benefit mentioned by three respondents from the retail sector highlighted the involvement of foreign investors since adopting IFRS for SMEs. With reference to Pascu (2011), IFRS for SMEs had opened a gateway to the global market. The manufacturing sector had two respondents citing the benefit of having foreign investors coming on board and assisting with finance and production equipment.

The food industry had a participant appreciating the adoption of IFRS since it had made it easy for the business to have easy access to loans from banks. In literature, Rudzani and Manda (2016) highlighted the importance of adopting IFRS for SMEs as created good relations with the financial institutions. The food industry also acknowledged the use of IFRS to have created connections and links with the government by means of conducting business with the Government. One benefit cited by the financial service providers was the global connection passage that had been created since adopting IFRS for SMEs.

4.2.4.2 Challenges

Five respondents from the retail sector made an outcry of experiencing additional cost when implementing the IFRS. The same respondents complained about the complexity of the IFRS language citing difficulties in understanding the concepts. This complain was supported by Richardson and Eberlein (2011) who pointed out that Turkish SMEs were having difficulties in translating the IFRS language. In the same retail sector, two respondents expressed their concern of not having adequate resources for training and noted the absence of skilled workers who can understand the use of the IFRS. All two respondents from the manufacturing sector stressed out the challenges of not having enough resources to implement the IFRS and experiencing extra costs when implementing the IFRS.

Both the other sectors notably the food industry and the financial services providers noted the inability to fully implement IFRS as it involved additional costs regardless of having skilled personal. The major challenge highlighted by the respondents was lack of adequate resources to implement the IFRS in their respective business and in literature, this is supported by Mazhindu and Mafuba (2013), Lekhanya (2013) and Albu et al (2011).

4.3 INTERVIEWS

The respondents experience and stories were explored through the use of interviews. The researcher opted to interview the respondents who had returned the open-ended questionnaire. However there was a relatively low percentage of respondents (27.3%, 3 out 11) who made it for the interview. The reason why other participants failed to attend the interview was due to lack of time on their side. The three participants who turned out for the interview were from each sector namely the retail, manufacturing and the financial services providers sector.

4.3.1 What are the factors which are influencing the quality of financial reporting in the success of your business?

The just mentioned question is linked with the first question in the open-ended questionnaire and under the interview, the researcher had the opportunity to get the data without limiting the respondent on what to say. All the three respondents cited the importance of the legal framework as a major determinant of accounting reporting. The respondents all agreed that having to comply with the regulatory authorities like ZIMRA enabled them to practice proper accounting reporting. This view is supported by Soderstrom and Sun (2007) who concluded that the political and legal systems of a country affects accounting reporting quality. Abedana and Gayomey (2016) also noted that taxation enables preparers of financial statements to provide with quality information in order to comply with the authorities.

Considering as a factor, one respondent from the retail sector cited the use of quality accounting standards to be influential in quality accounting reporting. Khanagha (2011) supports this view by citing that the quality of accounting standards has an impact on the user's perception of the financial information presented in the financial statements. This then shows that the legal framework and the quality of accounting standards do play a pivotal role in determining quality accounting reporting.

4.3.2 Can you outline the measurement basis that you are using in your business in determining the quality of accounting data that you present in your financial statements?

Same as applied in the second question included in the open-ended questionnaire, this particular question made it easy for respondents to provide with different methods they use and provide with reasons to why they opted for such methods.

The first respondent from the manufacturing sector highlighted that his business engaged the earnings management practice principle. The reason he cited was connected with the fact that since the managers will be running the operations at the factory, chances are high for them to manipulate data. Therefore when assessing the quality of accounting data that would have been presented in the financial statements, the managers are made accountable. In literature, such a method is explained by Mussalo (2015) who views earnings management practises to have emanated from the intentions of managers wanting to mislead stakeholders about the economic performance of a firm.

The second respondent from the retail sector agreed to the use of the accounting conservatism method when measuring the quality of accounting data. The respondent supported the method by explaining that the retail shops wanted to avoid overstating income and understating expenses. In support with the second respondent, Sana'a (2016) pointed out that accounting conservatism is used by accountants when dealing with uncertain condition and avoiding overstating income and understating expenses and obligations.

The last respondent from the financial service providers sector made it clear that his business used timely loss recognition when measuring accounting data. The reason was to pave way for recognising loses when they occur with respect to provision for bad debts. In literature, Uyar (2013) concluded that Turkish financial companies were increasingly applying timely loss recognition when measuring accounting data. It was also noted that all the respondents appreciated the use of the conceptual framework when measuring accounting data. In summary, the information collected through the interview showed that small firms are familiar with certain methods when measuring accounting data and methods like the credit relevance approach are rarely used when measuring accounting data.

4.3.3 to what extent has IFRS for SMEs helped in producing quality accounting reports within your business?

This question was an open one to respondents to clearly give their views about the impact of IFRS on quality of accounting reports. There were mixed responses from the three participants, with the first participant from the retail sector giving a positive view.

The first responder praised the IFRS for SMEs citing that the quality of accounting reports had improved since adopting IFRS. The responder highlighted that it was now easier for him to compare his financial statements with other similar business. In literature, Kim (2012) concluded that SMEs had improved their financial reports since adopting IFRS and the information presented in the financial statements was now of high quality and well appreciated by end user's. Unlike the second respondent, from the manufacturing sector, the owner perceived IFRS for SMEs as not improving the quality of accounting reports, rather it has caused confusion among SMEs with the complex requirements involving disclosure and application of the standards. This owner is further supported by Latridis and Rouvolis (2010) who made a similar complain in Greece when they concluded that IFRS for SMEs did not yield any value relevance of accounting information.

The third respondent who specialises in the financial services, noted that it was too early for him and his business to conclude that there are any effects poised by adopting IFRS on the quality of accounting reports. In literature, Uddin et al (2011), the authors concluded that it was difficult to assess if the IFRS for SMEs was yielding any positive or negative results on the quality of accounting reports since the nature of the SMEs business are all unique. Therefore this shows that there is still room for further research to be conducted since different opinions are been expressed with regards to IFRS for SMEs.

4.3.4 Are there any benefits and challenges that your business has experienced since adopting IFRS?

At this stage, the question was meant to assess the pros and cons of adopting IFRS for SMEs and the respondents briefly explained some of the challenges and benefits they were experiencing. All the three respondents cited having challenges in acquiring adequate resources that will be needed to fully implement the IFRS. The IFRS was viewed as been too costly to implement as it involved necessary adjustments of the overall business accounting system. With reference to the literature, Pascu (2011), concluded that the IFRS standards were to complex and required new methods and redesigning of the accounting system which in turn was too costly.

Another challenge the three respondents had to note was the lack of training and skilled resources. Accordingly, Mazhindu and Mafuba (2013) concluded that SMEs in Zimbabwe lacked awareness and the capacity of implementing the IFRS. One respondent from the manufacturing sector complained about the complexity of the IFRS language and cited that her business was having difficulties in grasping the concepts and practically applying them when preparing financial statements. Richardson and Eberlein (2011) concluded that countries who reckoned English as a secondary language were having difficulties in understanding the IFRS for SMEs.

Turning the attention to possible benefits of adopting IFRS for SMEs, all the 3 participants pointed out that the IFRS had strengthened the compliance level with regulatory authorities like ZIMRA. The respondents further highlighted that the IFRS for SMEs gave simple guidelines when doing tax calculations hence reducing the cumbersome burden of having to do complex calculations under the general IFRS. Relevant literature from Rudzani and Manda (2016) gave insights on the impact of IFRS in South Africa and concluded that the IFRS helped SMEs in complying with the tax authorities.

Another benefit which was acknowledged by the three respondents was improved comparability of financial statements. It was highlighted that IFRS had enabled SMEs to make comparisons with other business who were conducting the same type of business. International comparisons were also been experienced since adopting IFRS. Bunea-Bontas et al (2011) supported the use of IFRS for SMEs as it enhances confidence and comparability in the reports of SMEs. From the benefits and challenges that the three respondents were giving, it clearly shows that IFRS for SMEs has its pros and cons which are almost 50/50 in comparison.

4.4 SUMMARY

The just ended chapter looked at the presentations of the data which was collected in relation to the effects of adopting IFRS on quality of accounting reports of SMEs. The findings depicted a positive result on the quality of accounting reports when IFRS for SMEs is adopted. The next chapter that follows is chapter 5 and it will look at the summary of the study, conclusions and recommendations.

CHAPTER V: SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

5.0 INTRODUCTION

The chapter will summarize the research findings of the study and further highlight the conclusions and recommendations to the study.

5.1 SUMMARY OF CHAPTERS

5.1.1 FIRST CHAPTER

The first chapter was aimed at addressing the problem which had emanated from the difficulties being experienced by SMEs in accessing finance. Since the IASB perceives IFRS to be of high quality, a research study was designed to assess the effects of adopting IFRS for SMEs on the quality of their accounting reports. The main research question was further supported by the objectives of carrying out the study followed by sub-research questions. Limitations, delimitations and significance of the study were also cited in this chapter.

5.1.2 SECOND CHAPTER

The second chapter outlined the available literature review on the impact of Adopting IFRS for SMEs. With much attention being addressed on the quality of accounting reports, the researcher used his objectives to find the relevant literature. The first objective looked at the determinants of accounting reporting and it was noted by Sodestrom and Sun (2007) that there were basically three factors which affected the quality of accounting reporting namely: quality of accounting standards, financial reporting incentives and the legal framework. The second objective which helped in coming up with the literature was targeted at examining the different measurement methods that are applied in measuring the quality of accounting data. It was encouraged by the international accounting standard board (IASB) to continuously use the conceptual framework when measuring the quality of accounting data. Besides the use of the conceptual framework, Narktabtee and Patpanichchot (2011), Nafti et al (2013) and Uyar (2013) supported the use of the value relevance approach in measuring accounting data. Other approaches which were revealed in the literature included the accounting conservatism, credit relevance, the extent of earnings management and timeliness of loss recognition.

The third objective scrutinized the extent to which IFRS for SMEs had enhanced the quality of accounting reports. In Russia, Kim (2012) concluded that the IFRS for SMEs had enhanced quality of accounting reports. While in Greece, Latridis and Rouvolis (2010) gave a negative picture on the impact of IFRS for SMEs. Neutral authors Mage (2010) and Uddin et al (2011) propounded that neither negative or a positive result on the quality of accounting reports could be determined by the adoption of IFRS for SMEs.

The last objective involved in the literature review focused on the benefits and challenges of adopting IFRS for SMEs. It was noted by Mazhindu and Mafuba that Zimbabweans SMEs lacked adequate resources in implementing the IFRS. While in the neighbouring country South Africa, Rudzani and Mandi (2016) praised IFRS for enhancing the relationship between SMEs and the government.

5.1.3 THIRD CHAPTER

It is in this chapter were the researcher highlighted the methodology he used to carry out the study which was the qualitative approach. The researcher used a targeted population of 18 SMEs in the Harare C.B.D. Justifications for the chosen research design, sampling method, research instruments were all explained in this chapter. The chapter concluded by acknowledging the importance of the validity and reliability of the data to be collected. It was also stressed out in this chapter that confidentiality of the data to be collected was going to form the foundation of the researcher's integrity.

5.1.4 FOURTH CHAPTER

After collecting the relevant data, the researcher outlined in this chapter the findings which were obtained through the use of open-ended questionnaires and interviews conducted. A narrative approach was used to analyse and describe the data based on the qualitative research method which the researcher choose in the preceding chapter.

5.2 MAJOR RESEARCH FINDINGS OF THE STUDY

The main aim of the study was to investigate and assess if the adoption of IFRS for SMEs had any impact on the quality of accounting reports. The study focused on SMEs located in the Harare Central Business District (C.B.D) and the following were the major findings;

5.2.1 DETERMINANTS OF FINANCIAL REPORTING QUALITY

The SMEs in the Harare CBD noted the importance of embracing the legal framework of the country when it comes to financial reporting. An outstanding 100% response rate claimed to have been driven to have quality accounting reporting by the need to adhere to the regulatory authorities. In support with the literature, Sodestrom and Sun (2007) had highlighted the pivotal role played by the government in maintaining quality production of accounting reports.

An average rate disclosed by the respondents depicted the impact of ownership on the quality of accounting reporting. The SMEs explained the importance of having joint foreign ownership as it was viewed to support the need of producing quality reports. Other SMEs representing a prompted the impact of financial reporting incentives as critical to quality accounting reporting. The availability of incentives such as the capital structure acts as catalyst in producing quality accounting reports. Sodestrom and Sun (2007) urged governments to support SMEs through financial reporting incentives.

5.2.2 MEASUREMENT CRITERIA USED IN DETERMINING QUALITY OF ACCOUNTING DATA PRESENTED IN THE FINANCIAL STATEMENTS.

The IASB do encourage the importance of using the conceptual framework as a guideline to presentation of financial statements. An impressive 100% respondent rate from the SMEs in Harare supported the use of the conceptual framework in determining the quality of accounting data. They further prompted that there was need of a separate conceptual framework which will be specifically designed for SMEs. As supported by the literature review of this study, there are other measurement methods which companies do use to ascertain the quality of accounting data that will be presented in the financial statements.

A relatively low rate cited the application of the earnings management practices when evaluating the quality of accounting data. Another low response rate noted the use of timely loss of recognition as their measurement basis. Some SMEs supported the use of the value relevance approach though they were relatively low. The credit relevance approach was also discussed by participants who participated in the data collection and acknowledged the use of this method. The most interesting part was the use of the accounting conservatism by the SMEs who participated. It reflected that a significant number of SMEs applied the accounting conservatism approach and they saw it easy to use this method.

5.2.3 THE EXTENT TO WHICH IFRS FOR SMEs HAS ENHANCED THE QUALITY OF ACCOUNTING REPORTS.

In order to gather reliable and valid data, the respondent stressed out in chapter three his study population and the sampling technique. The SMEs who were involved in this study were from different sectors, namely the retail, manufacturing, food industry and the financial service providers. When asked about the degree level of how IFRS for SMEs had affected the quality of their reports, mixed opinions were discovered. From the retail sector, four respondents gave a positive respond, one cited the negative side while two respondents were indifferent about the question under study. Diverting the attention to the manufacturing sector, a worrisome picture was depicted with the two respondents who participated gave a negative view towards IFRS while only the food industry remained neutral. The findings clearly depicted the need to scrutinize why SMEs do have different views on the adoption of IFRS.

5.2.4 BENEFITS AND CHALLENGES OF ADOPTING IFRS FOR SMEs

Some of the challenges which were noted included lack of adequate resources to implement the IFRS and experiencing extra costs when implementing IFRS. All the sectors were concerned with costs which were associated with implementing IFRS. Only few SMEs complained about the complexity of the IFRS language but the major challenge was the issue of having adequate resources and cost implications when implementing the IFRS. With regards to the benefits which were highlighted by the SMEs, the IFRS had strengthened the relationship between the SMEs and the regulatory authorities like ZIMRA. The flood gates of the global market were also opened since adopting IFRS for SMEs with both the manufacturing sector and the retail citing major involvement of the foreign investors since the adoption era.

5.3 RESEARCH CONCLUSION

By means of appreciating the significance involvement of SMEs in the growth of Zimbabwe economy, the researcher prompted the need of adopting IFRS for SMEs in other cities as it positively affects the quality of accounting reports. However the government and other stakeholders do have a great part to play in assisting SMEs appreciate the need of adopting IFRS. As previewed by this study, SMEs still continue to face challenges despite adopting IFRS. Similar to the concept of the coin, there are always two sides of the coin and this was proven by the benefits of adopting IFRS for SMEs. Therefore there is need for further studies which will look at the pros and cons of IFRS for SMEs before conclusions can be made.

5.4 RECOMMENDATIONS

- As evidenced by the literature in this study, IFRS for SMEs is vital for SMEs when practising financial reporting. Therefore there is need for awareness campaigns to be conducted which will enlighten the importance of adopting IFRS.
- Accounting firms should also come to the party in assisting SMEs in implementing the IFRS to avoid experiencing extra costs. Educating the owners and managers about the benefits of adopting IFRS will be of great significance as this will eradicate the knowledge gap which co-exists on the matters of IFRS.
- At tertiary level, studies relating to the IFRS for SMEs should be incorporated in order to spread the knowledge of IFRS.
- The government should also assist by providing with financial reporting incentives that will give SMEs the willingness to adopt the IFRS.
- Standard setters involving the top managers, external auditors and regulators should link in tightening compliance of the IFRS so that SMEs can derive the benefits of adopting the standards.

5.5 SUGESTIONS FOR FUTHER STUDY

IFRS are viewed as high quality accounting standards which enhances business performance and motivation of accountants at the work place. It will be interesting to research on the insignificant impact of adopting IFRS and provide with evidence of where the IFRS is not adopted.

5.6 CHAPTER SUMMARY

This chapter outlined the summary of the study and further looked at the research findings, recommendations and conclusions. It was noted that IFRS for SMEs significantly affects the quality of accounting reports.

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Letter of authority to carry out research

MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

QUESTIONNAIRE FOR RESPONDENTS

I am a student at Midlands State University undertaken my Bachelor of Commerce Accounting degree and my research is entitled; **"Effect of IFRS adoption on financial reporting quality of SMEs".**

This information is important for owners or managers of SMEs in crafting effective strategies that can be adopted to efficiently use accounting information in improving their economic decisions to ensure subsequent survival of the businesses.

Please feel free to answer the questions. You cannot be identified from the information you provide, and no information about yourself or your business will be given to anyone. All the information you provide will be treated in the strictest confidence.

Thank you for taking your time in assisting me.

Tatenda Mandaza

INSTRUCTIONS

1. **Do not write your name on this questionnaire.**
2. **May you please attempt all the questions?**

SECTION A: DETERMINANTS OF ACCOUNTING REPORTING QUALITY

1. What factors have been affecting the quality of your financial reporting?

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SECTION B: MEASUREMENT CRITERIA FOR ACCOUNTING DATA PRESENTED IN THE FINANCIAL STATEMENTS.

1. How do you measure the quality of your accounting data?

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SECTION C: THE EXTENT TO WHICH IFRS ADOPTION ENHANCES THE QUALITY OF FINANCIAL REPORTING FOR SMEs

1. Has your business improved its financial reporting practises since adopting IFRS?

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SECTION D: BENEFITS AND CHALLENGES OF ADOPTING IFRS FOR SMEs

1. Is your business benefitting from adopting IFRS?

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2. Are there any challenges you are experiencing in your business since adopting IFRS?

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INTERVIEW GUIDE

Introduction of interviewer

Hello, my name is ______________________________.

During the interview, I would like to discuss the effects of adopting the IFRS for SMEs on the quality of your accounting reports.

Main questions or clarifying questions

- What are the factors which are influencing the quality of accounting reporting in the success of your businesses?
- Can you outline the measurement basis that you are using in your business in determining the quality of accounting data that you present in your financial statements?
- To what extent has IFRS for SMEs helped in producing quality accounting reports within your business?
- Are there any benefits and challenges that your business has experienced since adopting IFRS?